

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name SHELBY PUBLIC SCHOOLS	County OCEANA
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 18, 2006	Date Audit Report Submitted to State OCTOBER 6, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures..
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) SINGLE AUDIT	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Karl L. Drake, CPA		Telephone Number 517-937-9333		
Street Address 3775 Kimmel Road		City Horton	State MI	Zip 49246

Authorizing CPA Signature <i>Karl L. Drake</i>	Printed Name Karl L. Drake	License Number 1101016526
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SHELBY PUBLIC SCHOOLS

FINANCIAL STATEMENTS

JUNE 30, 2006

SHELBY PUBLIC SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2006

Board of Education

Steven Vinke	President
Doug Fris	Vice President
Linda Peterson	Secretary
Leon Kay	Treasurer
Michael McGovern	Board Member
Craig Sawyer	Board Member
Jeremy Horton	Board Member

Management

Dana McGrew	Superintendent
Beverly Holmes	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney

SHELBY PUBLIC SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 30-32 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Shelby Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby Public School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

August 18, 2006

This section of Shelby Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Shelby Public Schools financially as a whole.

The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Food Service Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, childcare, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Reporting The School District's Fiduciary Responsibilities -The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 as compared to June 30, 2005:

TABLE I	Governmental Activities (In Millions)	
	2006	2005
ASSETS		
Current and other assets	\$ 5.3	\$ 6.7
Capital assets - Net of accumulated depreciation	17.3	17.3
TOTAL ASSETS	22.6	24.0
LIABILITIES		
Current liabilities	2.7	3.1
Long-term liabilities	14.1	13.1
TOTAL LIABILITIES	16.8	16.2
NET ASSETS		
Invested in property and equipment - Net of related debt	5.9	4.6
Restricted	.2	.2
Unrestricted	-.3	3.0
TOTAL NET ASSETS	\$ 5.8	\$ 7.8

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$5.8 million at June 30, 2006. Capital assets, net of related debt totaling \$5.9 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$-.3 million) was unrestricted.

The \$-.3 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2	Governmental Activities (In Millions)	
	2006	2005
REVENUE		
Program Revenue		
Charges for services	\$ 0.3	\$ 0.3
Grants and categoricals	3.4	3.6
General Revenue		
Property taxes	3.7	3.5
State foundation allowance	10.4	10.5
Other	0.5	0.4
TOTAL REVENUE	\$ 18.3	\$ 18.3

FUNCTION/PROGRAM EXPENSES	2006 (In Millions)	2005 (In Millions)
Instruction	\$ 12.8	\$ 10.3
Support Services	4.9	5.7
Food Services	0.6	0.5
Athletics	0.4	0.4
Community Services	0.5	0.6
Interest on long-term debt	0.5	0.6
Depreciation (unallocated)	0.6	0.6
TOTAL FUNCTION/PROGRAM EXPENSES	20.3	18.7
INCREASE <DECREASE> IN NET ASSETS	\$ -2.0	\$ -0.4

As reported in the statement of activities, the cost of all of the governmental activities this year was \$20.3 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$3.4 million). The remaining “public benefit” portion of the governmental activities was paid with \$3.7 million in taxes, \$10.4 million in State Foundation Allowance, and with other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$2.0 million. Key reasons for the change in net assets were capitalizable expenditures, recognition of severance pay liability, and the repayment of bond principal. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District’s Funds

As noted earlier, the School District uses funds to help it manage and control money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District’s overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.5 million, which is a decrease of \$0.9 million from last year. The primary reasons for the decrease are large increases in the cost of fuel, health insurance and MPSERS retirement, and a per-pupil foundation allowance from the State of Michigan that does not cover cost increases. The General Fund, our principal operating fund, saw the fund balance decrease \$919,519 to \$3,150,217, which is less than the budgeted decrease of \$1,679,287.

- The Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$2,464.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$8,116. Debt Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Each month as necessary, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund budget were as follows:

- Budgeted revenues were decreased \$89,876, due mainly to a declining enrollment, and decreases in other state and federal funding sources.
- Budgeted expenditures were increased \$200,521 to purchase a school bus, to cover the dramatic increase in the cost of fuel for the district's buses, and to pay for additional instructional assistance.

Capital Asset And Debt Administration**Capital Asset**

At June 30, 2006, the School District had \$26.0 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$641,880 or 3 percent, from last year.

	<u>2006</u>	<u>2005</u>
Land	\$ 231,991	\$ 231,991
Buildings	21,843,538	21,281,293
Buses and Other Vehicles	1,442,466	1,370,366
Furniture and Equipment	<u>2,513,423</u>	<u>2,505,888</u>
Total Capital Assets	<u>26,031,418</u>	<u>25,389,538</u>
Less Accumulated Depreciation	<u>8,684,480</u>	<u>8,095,270</u>
Net Capital Assets	<u>\$ 17,346,938</u>	<u>\$ 17,294,268</u>

The additions for this year included a bus, technology equipment, completion of the middle school roof, a canopy over the entry way to the central office, fire alarm upgrades,, and HVAC improvements. No debt was issued for these additions.

Debt

At the end of this year, the School District had \$11.4 million in bonds outstanding versus \$12.7 million in the previous year - a decrease of 10 percent. Those bonds consisted of the following:

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 11,439,275	\$ 12,714,125

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$11.4 million is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences and severance pay. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The District's elected officials and administration considered many factors when setting the 2007 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent of the February 2006 student count and 75 percent of the September 2006 student count. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate a significant decrease in the fall 2006 student count. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Insurance rates have increased 5% for the 2006-2007 school year, and the cost of retirement will rise from 16.34% to 17.74% on October 1, 2006. Though the health insurance increase was minimal, rising costs in fuel, utility expenses, and retirement, combined with the anticipated drop in enrollment will continue to make the 2006-2007 school year, as well as future years financially challenging.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenues.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Shelby Public School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 525 N. State Street, Shelby, Michigan 49455.

SHELBY PUBLIC SCHOOLS

District-wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 2,569,786
Due From Other Governmental Units	2,542,868
Accounts Receivable	21,217
Inventories	66,295
Prepaid Expenditures	109,341
Total Current Assets	5,309,507
Non-current Assets	
Capital Assets	26,031,418
Less: Accumulated Depreciation	-8,684,480
Total Non-current Assets	17,346,938
TOTAL ASSETS	\$ 22,656,445
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 15,364
Accrued Salaries and Expenses	1,726,637
Accrued Interest	99,243
Deferred Revenue	60,848
Bonds Payable, Due within One Year	818,842
Total Current Liabilities	2,720,934
Non-current Liabilities	
Bonds Payable (Note 7)	10,620,433
Compensated Absences and Severance Pay (Note 7)	3,466,565
Total Non-current Liabilities	14,086,998
TOTAL LIABILITIES	16,807,932
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,907,663
Restricted for Debt Service	243,892
Unrestricted	-303,042
TOTAL NET ASSETS	5,848,513
TOTAL LIABILITIES AND NET ASSETS	\$ 22,656,445

See Accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

		Program Revenues		Governmental Activities
		Charges For Services	Operating Grants	Net (<i>Expense</i>) Revenue and Changes in Net Assets
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS				
Governmental Activities				
Instruction	\$ 12,788,556	\$ 2,270	\$ 2,488,766	\$ -10,297,520
Support Services	4,955,641	33,056	109,907	-4,812,678
Food Services	550,839	168,999	377,164	-4,676
Athletics	369,916	42,981	---	-326,935
Community Services	529,389	39,431	470,666	-19,292
Interest on Long-Term Debt	526,483	---	---	-526,483
Depreciation (Unallocated)	<u>589,210</u>	<u>---</u>	<u>---</u>	<u>-589,210</u>
Total Governmental Activities	<u>\$ 20,310,034</u>	<u>\$ 286,737</u>	<u>\$ 3,446,503</u>	<u>-16,576,794</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				1,942,085
Property Taxes, Levied for Debt Service				1,756,953
State of Michigan Aid, Unrestricted				10,434,308
Interest Earnings				120,358
Other				<u>323,098</u>
Total General Revenue				<u>14,576,802</u>
CHANGE IN NET ASSETS				<u>-1,999,992</u>
NET ASSETS - BEGINNING OF YEAR				<u>7,848,505</u>
NET ASSETS - END OF YEAR				<u><u>\$ 5,848,513</u></u>

See Accompanying Notes to Financial Statements.

SHELBY PUBLIC SCHOOLS

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,200,249	\$ 122,219	\$ 247,318	\$ 2,569,786
Accounts Receivable	21,107	110	---	21,217
Due from Other Governmental Units	2,538,515	4,353	---	2,542,868
Due from Other Funds	24,010	---	8,835	32,845
Inventories	59,370	6,925	---	66,295
Prepaid Expenditures	108,716	---	625	109,341
TOTAL ASSETS	\$ 4,951,967	\$ 133,607	\$ 256,778	\$ 5,342,352
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 15,364	\$ ---	\$ ---	\$ 15,364
Accrued Salaries and Withholdings	1,716,703	474	9,460	1,726,637
Due to Other Funds	8,835	24,010	---	32,845
Deferred Revenue	60,848	---	---	60,848
TOTAL LIABILITIES	1,801,750	24,484	9,460	1,835,694
FUND BALANCES				
Reserved for Inventories	59,370	6,925	---	66,295
Reserved for Debt Service	---	---	243,892	243,892
Unreserved, Designated	456,977	---	---	456,977
Unreserved and Undesignated	2,633,870	---	---	2,633,870
Unreserved and Undesignated, Food Services	---	102,198	---	102,198
Unreserved and Undesignated, Athletics	---	---	3,426	3,426
TOTAL FUND BALANCES	3,150,217	109,123	247,318	3,506,658
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,951,967	\$ 133,607	\$ 256,778	\$ 5,342,352
TOTAL GOVERNMENTAL FUND BALANCES				\$ 3,506,658
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
Cost of the Capital Assets				\$ 26,031,418
Accumulated Depreciation				<u>-8,684,480</u>
				17,346,938
Long-term Liabilities are not due and payable in the current period and are not reported in the fund				
Bonds Payable				-11,439,275
Compensated Absences				-3,466,565
Accrued interest is not included as a liability in governmental funds				<u>-99,243</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ 5,848,513

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	General	Food Service	Other Non-major Governmental Funds	Totals
REVENUE				
Local Sources	\$ 2,305,432	\$ 175,213	\$ 1,821,066	\$ 4,301,711
State Sources	11,786,262	32,061	10,839	11,829,162
Federal Sources	1,834,066	345,103	---	2,179,169
Miscellaneous	---	---	---	---
TOTAL REVENUE	15,925,760	552,377	1,831,905	18,310,042
EXPENDITURES				
Current				
Instruction	10,657,856	---	369,916	11,027,772
Supporting Services	4,955,641	550,839	---	5,506,480
Community Services	529,389	---	---	529,389
Debt Service	---	---	1,797,040	1,797,040
Capital Outlay	374,532	---	---	374,532
TOTAL EXPENDITURES	16,517,418	550,839	2,166,956	19,235,213
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-591,658	1,538	-335,051	-925,171
OTHER FINANCING SOURCES <USES>				
Operating Transfers In	---	---	327,861	327,861
Operating Transfers Out	-327,861	---	---	-327,861
TOTAL OTHER FINANCING SOURCES <USES>	-327,861	---	327,861	---
NET CHANGE IN FUND BALANCES	-919,519	1,538	-7,190	-925,171
FUND BALANCES - BEGINNING OF YEAR	4,069,736	107,585	254,508	4,431,829
FUND BALANCES - END OF YEAR	\$ 3,150,217	\$ 109,123	\$ 247,318	\$ 3,506,658

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2006****NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ -925,171**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense

-589,210

Capital Outlay

641,880

52,670

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

8,705

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

1,274,850**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**\$ 411,054

STATEMENT OF FIDUCIARY NET ASSETS**JUNE 30, 2006**

	<u>Agency Fund- Student Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 139,576
Accounts Receivable	<u>---</u>
TOTAL ASSETS	<u>\$ 139,576</u>
 LIABILITIES	
Due to Other Funds	\$ ---
Due to Others	4,899
Due to Student Groups	<u>134,677</u>
TOTAL LIABILITIES	<u>\$ 139,576</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Shelby Public School District is located in Oceana County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

Debt Service Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1992, 1998, 2003 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Oceana County. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in four financial institutions. At June 30, 2006 the book value of the School District's deposits was \$2,709,362 and the bank balance was \$2,879,741. Of the bank balance, \$355,934 was covered by federal depository insurance and \$2,523,807 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$651,517 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	<u>Market Value</u>
<u>\$ 651,517</u>	<u>\$ 651,517</u>

Total Cash:

Petty Cash	\$ 1,440
Deposits in Financial Institutions	2,056,405
Deposits in MLAF Account	<u>651,517</u>
	<u>\$ 2,709,362</u>

NOTE 3 - INVENTORY

The \$59,370 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2006.

There is \$6,925 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2006, was \$66,295.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2006, is comprised of the following:

General Fund

State of Michigan - State Aid	\$ 2,141,463
- Title I	-1,589
- Title II-A	2,605
- Summer Migrant Education	10,888
- State Day Care	84
- CACFP	360
Muskegon County - Head Start	46,135
- Work First Grant	277,629
- Labor Exchange	6,114
- WIA	16,296
Muskegon Area ISD -ABE	2,030
-Younger Youth	24,719
United States Department of Agriculture - Summer Food	4,541
Michigan Community Service Comm.	4,663
Village of Shelby - Crossing Guards	3,938
Michigan 4-C Association - Schooling Reimbursement	-2,455
Council of MI Foundation	1,094

Food Service Fund

State of Michigan	<u>4,353</u>
<u>Total Due From Other Governmental Units</u>	<u>\$ 2,542,868</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2006, consisted of the following:

Due To:

General	\$ 24,010
Athletic	<u>8,835</u>
	<u>\$ 32,845</u>

Due From:

Food Service	\$ 24,010
General	<u>8,835</u>
	<u>\$ 32,845</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance June 30, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 231,991	\$ ---	\$ ---	\$ 231,991
Capital assets being depreciated:				
Building and building improvements	21,281,293	562,245	---	21,843,538
Buses and other vehicles	1,370,366	72,100	---	1,442,466
Furniture and equipment	2,505,888	7,535	---	2,513,423
Subtotal	25,157,547	641,880	---	25,799,427
Accumulated depreciation:				
Building and building improvements	5,219,583	419,774	---	5,639,357
Buses and other vehicles	1,087,153	61,630	---	1,148,783
Furniture and equipment	1,788,534	107,806	--	1,896,340
Subtotal	8,095,270	589,210	---	8,684,480
Net capital assets being depreciated	17,062,277	52,670	---	17,114,947
Net capital assets	\$ 17,294,268	\$ 52,670	\$ ---	\$ 17,346,938

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2006, of \$964,639 represents the unpaid portion of teacher contracts for the 2005-06 school year. On these salaries there are also fringe benefits payable at year-end totaling \$761,998.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2006, long-term debt changed as follows:

NOTE 8 - LONG-TERM DEBT - CONTINUED

Bond Issue	Balance 6/30/05	Additional Debt	2005-06 Payments	Balance 6/30/06
1992 Debt	\$ 155,000	\$ ---	\$ 35,000	\$ 120,000
1998 Refunding Debt	9,460,000	---	55,000	9,405,000
2003 Refunding Debt	2,310,000	---	585,000	1,725,000
Durant Debt	98,605	---	7,471	91,134
School Bond Loan	690,520	---	592,379	98,141
	12,714,125	---	1,274,850	11,439,275
Compensated Absences	1,055,519	2,411,046	---	3,466,565
	<u>\$ 13,769,644</u>	<u>\$ 2,411,046</u>	<u>\$ 1,274,850</u>	<u>\$ 14,905,840</u>

Amounts needed over the next five years for debt principal payments are as follows:

	School Bond Loan	1992 Debt	1998 Refunding Debt	Durant Debt	2003 Refunding Debt	Total
2006-07	\$ 98,141	\$ 35,000	\$ 55,000	\$ 35,701	\$ 595,000	\$ 818,842
2007-08	---	40,000	60,000	8,199	605,000	713,199
2008-09	---	45,000	145,000	8,590	525,000	723,590
2009-10	---	---	710,000	8,998	---	718,998
2010-11	---	---	730,000	9,427	---	739,427
	98,141	120,000	1,700,000	70,915	1,725,000	3,714,056
2011 - Maturity	---	---	7,705,000	20,219	---	7,725,219
	<u>\$ 98,141</u>	<u>\$ 120,000</u>	<u>\$ 9,405,000</u>	<u>\$ 91,134</u>	<u>\$ 1,725,000</u>	<u>\$ 11,439,275</u>

Shelby Refunding Bond Issue - 2003: The District issued \$2,945,000 of refunding bonds dated August 12, 2003. Principal payments are due May 1, beginning in 2004 through 2009. Interest rates range from 2.0% to 2.9%. The balance at June 30, 2006 was \$1,725,000.

Shelby Refunding Bond Issue - 1998: The District issued \$9,845,000 of refunding bonds dated December 22, 1998. Principal payments are due May 1, beginning in 1999 through 2021. Interest rates range from 3.1% to 4.8%. The balance at June 30, 2006, was \$9,405,000. See Note 12 for additional information on this transaction.

Durant Bond Issue: The District issued \$154,344 of bonds dated November 24, 1998. The principal and interest on the bond issue is financed from state aid revenue. The bonds bear interest at 4.761% and are due annually through 2013. The balance at June 30, 2006, was \$91,134.

School Bond Loan: The District has borrowed from the State of Michigan School Bond Loan program. Interest accrues at a variable rate currently 4.5%. This is being repaid when tax collections for debt retirement exceed principal and interest payments. The balance at June 30, 2006, was \$98,141.

Ferry Bond Issue - 1992: The District acquired the existing Ferry Bond Issue dated June 1, 1992, in the amount of \$345,000. Principal payments are due May 1 beginning in 1996 through 2009. Interest rates range from 6.1% to 7.75%. The balance at June 30, 2006, was \$120,000.

Compensated Absences: Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused sick leave amounts and severance pay. Once a teacher, secretary, or administrator reaches the twelfth step on the salary schedule, the accumulated compensable leave to the employee's credit is a cash surrender value of fifty percent. Custodians must attain fifteen years of service to be vested. Upon retirement, the accumulated days (maximum 115 days) are payable at 50% of rate of pay at the time of retirement. Therefore, a liability of \$1,080,914 exists at June 30, 2006.

Severance Pay. Any teacher who has taught twelve years in the Shelby Public School system, upon retirement or termination of services, is eligible to receive severance pay. Any teacher hired prior to June 17, 2002, who is on the twelfth step, upon retirement or termination of services is eligible to receive severance pay. Severance pay is equal to 50% of current salary levels. The liability at June 30, 2006 was \$2,385,651.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2006, the rate was 16.34%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age

NOTE 9 - DEFINED BENEFIT PENSION PLAN - CONTINUED

60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2006, the School District contributed \$1,574,212 to the Retirement System, which is 16.34% of current fiscal year covered compensation of \$9,634,100. The rate for the current contract year is 16.34%, which the School District paid on all covered compensation. Employees contributed an additional \$333,133 or 3.87% of eligible wages of \$8,608,095. Total wages of the district totaled \$10,122,514.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2004, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$46.3 billion. The total pension benefit obligation has increased by \$1.5 billion from September 30, 2003 to September 30, 2004.

The System's net assets available for benefits on that date (valued at market) were \$38.8 billion leaving an unfunded actuarial accrued liability of \$7.5 billion. Ten-year historical trend information is presented in the System's September 30, 2005, comprehensive annual financial report.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2006, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2006, are as follows:

- A) \$59,370 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$61,321 of fund balance in the General Fund has been designated for future technology purchases.
- C) \$295,656 of fund balance in the General Fund has been designated for reduced class size.
- D) \$6,925 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- E) \$100,000 of fund balance in the general fund has been designated for future facility improvements.
- F) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2006, Unreserved General Fund Balance of \$2,633,870 compares to June 30, 2005, Unreserved General Fund Balance of \$3,457,055

NOTE 12 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On December 22, 1998, Shelby Public School issued \$9,845,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.1% to 4.8% to advance refund \$8,960,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 5.3%. The net proceeds of \$9,600,500 (after payment of \$244,500 in issuance costs) were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds are considered to be defeased. The liability for those bonds has been removed from the general long-term debt account group.

Shelby Public Schools advance refunded the 1995 bonds to reduce its total debt service payments over the next twenty-two years by \$376,125. However, as a result of the transaction, Shelby Public Schools acquired an additional debt of \$855,000.

On August 12, 2003, Shelby Public School issued \$2,945,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 2.0% to 2.9% to advance refund \$2,790,000 of outstanding 1995 Building Site Bonds with an average interest rate of 5.1%. The net proceeds of \$2,945,000 (after payment of \$41,285 in issuance costs) plus an additional \$50,000 of Shelby Public School Debt Funds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 bonds. As a result, the 1995 bonds are considered to be defeased. The liability for those bonds has been removed from the general long-term debt account group.

Shelby Public Schools advance refunded the 1995 bonds to reduce its total debt service payments over the next ten years by \$110,000. However, as a result of the transaction, Shelby Public Schools acquired an additional debt of \$155,000.

NOTE 13 - LEASES

The School District leases Rothbury School from the Montague Area Public Schools. The lease term is from August 1, 2005 through June 15, 2008. Rent is \$2,500 monthly plus utilities from August 5 through June 15. Total lease expense for the year ended June 30, 2006 was \$25,000.

The School District leases space for its employment and training programs. The lease term is from February 1, 2005 through January 31, 2010. Monthly rent of \$1,250 is due. Total lease expense for the year ending June 30, 2006, was \$15,000. The base monthly rent increases annually by \$37.50.

Future minimum lease obligations are as follows:

Year ending June 30, 2007	\$ 40,000
2008	40,000
2009	15,000
2010	8,750
2011	---
2012 and thereafter	---

NOTE 14 - DEFERRED REVENUE

At June 30, 2006, various monies had been received for specific programs, but the programs had not yet incurred the expenses related to this revenue. These revenues are then recorded as deferred. At June 30, 2006, deferred revenue consisted of the following:

MSRP	\$ 18,356
Golden Apple Award	1,455
At Risk	34,044
Other	<u>6,993</u>
	<u>\$ 60,848</u>

NOTE 15 - RELATED PARTY ACTIVITY

The School District occasionally purchases catering services from a company (McGovern Catering) owned by a School Board member (Michael McGovern). During the year ended June 30, 2006, the total amount paid by the District to this company was \$1,242. Amounts paid to McGovern Catering were fair and reasonable for the services provided.

REQUIRED SUPPLEMENTAL INFORMATION

SHELBY PUBLIC SCHOOLS

Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Local Sources	\$ 2,393,502	\$ 2,402,421	\$ 2,305,432	\$ -96,989
State Sources	11,924,462	11,884,378	11,786,262	-98,116
Federal Sources	1,948,460	1,889,749	1,834,066	-55,683
Miscellaneous	---	---	---	---
TOTAL REVENUES	16,266,424	16,176,548	15,925,760	-250,788
EXPENDITURES				
Current				
Instruction				
Basic Programs	8,261,314	8,265,583	7,875,459	390,124
Added Needs	2,284,867	2,372,258	2,233,376	138,882
Adult/Continuing Education	604,468	577,683	549,021	28,662
Supporting Services				
Pupil	556,081	539,830	495,372	44,458
Instructional Staff	670,845	718,010	661,083	56,927
Administration	1,436,328	1,434,142	1,402,112	32,030
Business Support	286,961	305,504	296,368	9,136
Operations	1,992,518	1,584,270	1,450,806	133,464
Transportation	617,119	663,440	649,900	13,540
Community Services	603,180	663,120	529,389	133,731
Debt Service	---	---	---	---
Capital Outlay	---	390,362	374,532	15,830
Other Uses - Operating Transfers	341,633	341,633	327,861	13,772
TOTAL EXPENDITURES	17,655,314	17,855,835	16,845,279	1,010,556
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	-1,388,890	-1,679,287	-919,519	759,768
BUDGETARY FUND BALANCE - JULY 1, 2005	4,069,736	4,069,736	4,069,736	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 2,680,846	\$ 2,390,449	\$ 3,150,217	\$ 759,768

Budgetary Comparison Schedule**FOOD SERVICE****YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Local Sources	\$ 179,500	\$ 179,500	\$ 175,213	\$ -4,287
State Sources	31,000	31,000	32,061	1,061
Federal Sources	320,000	346,500	345,103	-1,397
Miscellaneous	---	---	---	---
TOTAL REVENUES	530,500	557,000	552,377	-4,623
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Adult/Continuing Education	---	---	---	---
Supporting Services				
Pupil	530,130	567,520	550,839	16,681
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Support	---	---	---	---
Operations	---	---	---	---
Transportation	---	---	---	---
Community Services	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	962	---	962
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	530,130	568,482	550,839	17,643
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	370	-11,482	1,538	13,020
BUDGETARY FUND BALANCE - JULY 1, 2005	107,585	107,585	107,585	---
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 107,955	\$ 96,103	\$ 109,123	\$ 13,020

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

SHELBY PUBLIC SCHOOLS

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

REVENUE	Budget	Actual	Favorable <Unfavorable>
LOCAL SOURCES			
Current Property Tax Levy	\$ 2,098,252	\$ 1,942,085	\$ -156,167
Interest and Penalties - Delinquent Taxes	200	729	529
Tuition, Patrons	1,100	1,290	190
Sale of School Property	6,300	---	-6,300
Interest Earned	85,000	97,418	12,418
Rental of School Facilities	5,000	6,759	1,759
Transportation	10,000	4,336	-5,664
Day Care Fees	21,000	25,558	4,558
Community Education Fees	15,500	14,120	-1,380
Other	160,069	213,137	53,068
TOTAL REVENUE FROM LOCAL SOURCES	2,402,421	2,305,432	-96,989
STATE SOURCES			
Non Plaintiff Durant Settlement	15,434	15,434	---
State Aid	10,480,059	10,434,308	-45,751
Day Care	12,000	6,872	-5,128
PAL Grant	15,000	---	-15,000
Special Education	318,717	337,831	19,114
Adult Education	45,486	46,870	1,384
At Risk	557,813	522,342	-35,471
Vocational Education	31,236	29,115	-2,121
Michigan School Readiness	231,000	212,644	-18,356
Advanced/Accelerated Learners	252	---	-252
Renaissance Zone	158,684	158,683	-1
Commercial Forest	4,300	7,562	3,262
Bilingual Education	14,397	14,601	204
TOTAL REVENUE FROM STATE SOURCES	\$ 11,884,378	\$ 11,786,262	\$ -98,116

	Budget	Actual	Favorable <Unfavorable>
FEDERAL SOURCES			
Improving Teacher Quality	\$ 147,712	\$ 121,629	\$ -26,083
Migrant Program	90,910	90,910	---
Summer Migrant Program	70,577	51,056	-19,521
Summer School Food Program	10,352	14,893	4,541
Title I	357,129	342,891	-14,238
Drug Free	10,203	10,203	---
Title III	28,769	18,588	-10,181
Adult Basic Education	19,491	15,623	-3,868
Title V	6,658	6,658	---
IDEA	45,000	45,000	---
Child Care Food	30,000	29,209	-791
Work First	472,127	462,127	-10,000
Workforce Investment Act	66,272	83,316	17,044
English Literacy	18,200	16,900	-1,300
Labor Exchange	40,000	46,147	6,147
4C Schooling	2,000	70	-1,930
Service Learning Grant	16,807	10,489	-6,318
Comprehensive School Reform	123,541	120,949	-2,592
Technology Literacy	6,662	6,662	---
WIA Younger Youth	36,889	36,889	---
Learning to Give	2,000	1,047	-953
Head Start	288,450	302,810	14,360
TOTAL REVENUE FROM FEDERAL SOURCES	1,889,749	1,834,066	-55,683
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 16,176,548	\$ 15,925,760	\$ -250,788
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary Schools	\$ 3,590,792	\$ 3,490,390	\$ 100,402
Middle School	1,766,333	1,622,286	144,047
High Schools	2,729,824	2,605,629	124,195
Preschool	178,634	157,154	21,480
TOTAL BASIC PROGRAMS	\$ 8,265,583	\$ 7,875,459	\$ 390,124

SHELBY PUBLIC SCHOOLS

General Fund

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budget	Actual	Favorable <Unfavorable>
EXPENDITURES (CONTINUED)			
Instruction - Continued			
ADDED NEEDS			
Special Education	\$ 1,112,229	\$ 1,073,850	\$ 38,379
Compensatory Education	942,719	867,259	75,460
Vocational Education	317,310	292,267	25,043
TOTAL ADDED NEEDS	2,372,258	2,233,376	138,882
ADULT/CONTINUING EDUCATION			
Adult Education	227,924	226,963	961
Workforce Investment Act	349,759	322,058	27,701
TOTAL ADULT/CONTINUING EDUCATION	577,683	549,021	28,662
Total Instruction	11,215,524	10,657,856	557,668
Supportive Services			
PUPIL			
Guidance	385,089	382,196	2,893
Drug-Free	8,039	8,038	1
Social Work	98,378	72,352	26,026
Other	48,324	32,786	15,538
TOTAL PUPIL	539,830	495,372	44,458
INSTRUCTIONAL STAFF			
Improvement of Instruction	240,477	213,050	27,427
Educational Media Services	152,217	147,348	4,869
Computer Assisted Instruction	101,300	99,024	2,276
Supervision	222,016	201,591	20,425
Other	2,000	70	1,930
TOTAL INSTRUCTIONAL STAFF	718,010	661,083	56,927
ADMINISTRATION			
Board of Education	28,756	28,166	590
Executive Administration	215,076	210,251	4,825
Principals Offices	1,186,660	1,160,628	26,032
Other	3,650	3,067	583
TOTAL ADMINISTRATION	\$ 1,434,142	\$ 1,402,112	\$ 32,030

	Budget	Actual	Favorable <Unfavorable>
BUSINESS SERVICES			
Fiscal Services	\$ 198,913	\$ 197,636	\$ 1,277
Other Business Services	31,335	30,762	573
Operation and Maintenance	1,584,270	1,450,806	133,464
Pupil Transportation	663,440	649,900	13,540
Staff/Personnel Services	9,394	5,222	4,172
Information Management Services	62,207	61,567	640
Pupil Accounting	3,655	1,181	2,474
TOTAL BUSINESS SERVICES	2,553,214	2,397,074	156,140
Total Supportive Services	5,245,196	4,955,641	289,555
Community Services			
Community Activities	638	436	202
Custody and Care of Children	337,564	282,274	55,290
Welfare Activities	232,541	213,447	19,094
Non-public School Pupils	1,493	1,304	189
Other	90,884	31,928	58,956
Total Community Services	663,120	529,389	133,731
Capital Outlay			
Bus Purchase	72,100	72,100	---
Other	318,262	302,432	15,830
Total Capital Outlay	390,362	374,532	15,830
TOTAL EXPENDITURES	\$ 17,514,202	\$ 16,517,418	\$ 996,784
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-1,337,654	-591,658	745,996
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	-341,633	-327,861	13,772
TOTAL OTHER FINANCING SOURCES<USES>	-341,633	-327,861	13,772
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -1,679,287	-919,519	\$ 759,768
FUND BALANCE - JULY 1, 2005		4,069,736	
FUND BALANCE - JUNE 30, 2006		\$ 3,150,217	

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash - In Bank	\$ 122,019	\$ 3,226	\$ 125,245
- On Hand	200	200	400
Accounts Receivable	110	---	110
Due From Other Governmental Units	4,353	---	4,353
Due From Other Funds	---	8,835	8,835
Prepaid Expenses	---	625	625
Inventory	6,925	---	6,925
TOTAL ASSETS	\$ 133,607	\$ 12,886	\$ 146,493
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ 24,010	\$ ---	\$ 24,010
Accounts Payable	---	---	---
Accrued Salaries	16	3,396	3,412
Accrued Expenses	458	6,064	6,522
TOTAL LIABILITIES	24,484	9,460	33,944
FUND EQUITY			
Fund Balance - Reserved for Inventory	6,925	---	6,925
Fund Balance - Unreserved	102,198	3,426	105,624
TOTAL FUND EQUITY	109,123	3,426	112,549
TOTAL LIABILITIES AND FUND EQUITY	\$ 133,607	\$ 12,886	\$ 146,493

SHELBY PUBLIC SCHOOLS

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Food Services			
Hot Lunch Receipts - Students	\$ 142,000	\$ 137,074	\$ -4,926
- Adults	12,000	11,407	-593
- Ala Carte	15,000	13,394	-1,606
Breakfast	7,000	7,124	124
State Aid	31,000	32,061	1,061
Federal Aid	320,000	326,981	6,981
Federal USDA Commodities in Kind	26,500	18,122	-8,378
Other Income	2,500	4,074	1,574
Interest Income	1,000	2,140	1,140
Athletic Activities			
Admission to Games	---	---	---
TOTAL REVENUE	557,000	552,377	-4,623
EXPENDITURES			
Salaries	208,424	208,172	252
Fringe Benefits	79,896	75,016	4,880
Professional Services	2,650	2,741	-91
Food and Supplies	258,800	247,006	11,794
Travel and Conferences	3,050	3,132	-82
Transportation	1,200	919	281
Miscellaneous	5,200	4,466	734
Repairs	1,500	3,018	-1,518
Utilities and Waste	6,800	6,369	431
Capital Outlay	962	---	962
TOTAL EXPENDITURES	\$ 568,482	\$ 550,839	\$ 17,643

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 142,000	\$ 137,074	\$ -4,926
---	---	---	12,000	11,407	-593
---	---	---	15,000	13,394	-1,606
---	---	---	7,000	7,124	124
---	---	---	31,000	32,061	1,061
---	---	---	320,000	326,981	6,981
---	---	---	26,500	18,122	-8,378
---	---	---	2,500	4,074	1,574
---	---	---	1,000	2,140	1,140
36,931	42,981	6,050	36,931	42,981	6,050
36,931	42,981	6,050	593,931	595,358	1,427
238,228	235,872	2,356	446,652	444,044	2,608
68,568	65,212	3,356	148,464	140,228	8,236
30,428	27,998	2,430	33,078	30,739	2,339
20,400	18,136	2,264	279,200	265,142	14,058
2,240	2,024	216	5,290	5,156	134
8,410	9,886	-1,476	9,610	10,805	-1,195
7,413	8,347	-934	12,613	12,813	-200
3,000	2,441	559	4,500	5,459	-959
---	---	---	6,800	6,369	431
---	---	---	962	---	962
\$ 378,687	\$ 369,916	\$ 8,771	\$ 947,169	\$ 920,755	\$ 26,414

SHELBY PUBLIC SCHOOLS

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	\$ -11,482	\$ 1,538	\$ 13,020
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ -11,482</u>	1,538	<u>\$ 13,020</u>
FUND BALANCE - BEGINNING OF YEAR		<u>107,585</u>	
FUND BALANCE - END OF YEAR		<u>\$ 109,123</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -341,756	\$ -326,935	\$ 14,821	\$ -353,238	\$ -325,397	\$ 27,841
341,633	327,861	-13,772	341,633	327,861	-13,772
---	---	---	---	---	---
361,633	327,861	-13,772	341,633	327,861	-13,772
<u>\$ -123</u>	926	<u>\$ 1,049</u>	<u>\$ -11,605</u>	2,464	<u>\$ 14,069</u>
	<u>2,500</u>			<u>110,085</u>	
	<u>\$ 3,426</u>			<u>\$ 112,549</u>	

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006

	1992 Debt	1998 Debt	2003 Debt	Durant	Totals
ASSETS					
Cash in Bank	\$ 10,731	\$ 115,247	\$ 117,914	\$ ---	\$ 243,892
Due from other Funds	---	---	---	---	---
Accounts Receivable	---	---	---	---	---
TOTAL ASSETS	\$ 10,731	\$ 115,247	\$ 117,914	\$ ---	\$ 243,892
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	---	---
TOTAL LIABILITIES	---	---	---	---	---
FUND EQUITY					
Fund Balance	10,731	115,247	117,914	---	243,892
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,731	\$ 115,247	\$ 117,914	\$ ---	\$ 243,892

SHELBY PUBLIC SCHOOLS

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	1992		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 46,252	\$ 43,574	\$ -2,678
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	5	8	3
Earned Interest	500	725	225
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	46,757	44,307	-2,450
EXPENDITURES			
Principal on Bonds	35,000	35,000	---
Principal on School Bond Loan Fund	---	---	---
Interest on Bonds	10,416	10,414	2
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	369	360	9
TOTAL EXPENDITURES	45,785	45,774	11
EXCESS REVENUE OVER <UNDER> EXPENDITURES	972	-1,467	-2,439
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ 972	-1,467	\$ -2,439
FUND BALANCE - BEGINNING OF YEAR		12,198	
FUND BALANCE - END OF YEAR		\$ 10,731	

Durant		
Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---
---	---	---
---	---	--
---	---	---
---	10,839	10,839
---	---	---
---	10,839	10,839

---	7,471	-7,471
---	---	---
---	3,368	-3,368
---	---	---
---	---	---
---	10,839	-10,839

---	---	---
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<u>\$ ---</u>	---	<u>\$ ---</u>
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<u>\$ ---</u>

SHELBY PUBLIC SCHOOLS

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

REVENUE	1998		Favorable <Unfavorable>
	Budget	Actual	
Current Taxes	\$ 703,491	\$ 702,809	\$ -682
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	50	134	84
State Aid Revenue	---	---	---
Earned Interest	5,100	6,662	1,562
Miscellaneous	---	---	---
TOTAL REVENUE	708,641	709,605	964
EXPENDITURES			
Principal on Bonds	55,000	55,000	---
Principal on School Bond Loan Fund	220,156	220,156	---
Interest on Bonds	432,195	432,196	-1
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	595	450	145
TOTAL EXPENDITURES	707,946	707,802	144
EXCESS REVENUE OVER EXPENDITURES	695	1,803	1,108
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 695	1,803	\$ 1,108
FUND BALANCE - BEGINNING OF YEAR		113,444	
FUND BALANCE - END OF YEAR		\$ 115,247	

2003			Totals		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 1,015,067	\$ 1,010,570	\$ -4,497	\$ 1,764,810	\$ 1,756,953	\$ -7,857
---	---	---	---	---	---
60	190	130	115	332	217
5,400	13,413	8,013	11,000	20,800	9,800
---	---	---	---	10,839	10,839
---	---	---	---	---	---
1,020,527	1,024,173	3,646	1,775,925	1,788,924	12,999
585,000	585,000	---	675,000	682,471	-7,471
359,225	359,225	---	579,381	579,381	---
56,340	56,340	---	498,951	502,318	-3,367
76,616	31,619	44,997	76,616	31,619	44,997
624	441	183	1,588	1,251	337
1,077,805	1,032,625	45,180	1,831,536	1,797,040	34,496
-57,278	-8,452	48,826	-55,611	-8,116	47,495
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
<u>\$ -57,278</u>	-8,452	<u>\$ 48,826</u>	<u>\$ -55,611</u>	-8,116	<u>\$ 47,495</u>
	<u>126,366</u>			<u>252,008</u>	
	<u>\$ 117,914</u>			<u>\$ 243,892</u>	

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2006

ASSETS

Cash in Bank	\$ 139,576
Due From Other Funds	<u>---</u>
TOTAL ASSETS	<u>\$ 139,576</u>

LIABILITIES

Due to Other Funds	\$ ---
Due to Others	4,899
Due to Student Groups	<u>134,677</u>
TOTAL LIABILITIES	<u>\$ 139,576</u>

SHELBY PUBLIC SCHOOLS

Agency Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2006

	Balance 6/30/05	Receipts	Disbursements	Balance 6/30/06
ASSETS				
Cash	\$ 128,221	\$ 362,215	\$ 350,860	\$ 139,576
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 128,221	\$ 362,215	\$ 350,860	\$ 139,576
LIABILITIES				
DUE TO OTHER FUNDS	\$ 889	\$ ---	\$ 889	\$ ---
DUE TO OTHERS				
School Administration Central Office Board Internal	3,261	13,062	12,948	3,375
New Era Internal Fund	1,645	12,454	12,575	1,524
TOTAL DUE TO OTHERS	4,906	25,516	25,523	4,899
DUE TO STUDENT GROUPS				
High School Internal	67,160	222,941	218,560	71,541
Middle Internal	22,898	78,716	75,496	26,118
Ferry Elementary Internal	6,674	7,921	4,282	10,313
Thomas Read Elem. Internal	23,088	23,864	23,013	23,939
Benona Elementary Internal	2,606	3,257	3,097	2,766
TOTAL STUDENT GROUPS	122,426	336,699	324,448	134,677
TOTAL LIABILITIES	\$ 128,221	\$ 362,215	\$ 350,860	\$ 139,576

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
HIGH SCHOOL INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/05			Student Groups 6/30/06
Art Club	\$ 96	\$ 256	\$ 178	\$ 174
Band	323	24,376	24,596	103
Calculators	114	---	---	114
Equestrian Team	501	---	---	501
Faculty Lounge Pop	443	182	153	472
D.E. Club	3,118	28,301	28,567	2,852
Drama Class	315	1,104	835	584
Class of 2008	875	5,126	3,765	2,236
Class of 2007	4,165	1,227	4,002	1,390
Class of 2006	1,639	4,729	5,775	593
Class of 2005	1,178	---	1,178	---
Class of 2009	---	1,196	800	396
Learn and Serve	97	1,372	1,335	134
Post - Prom	121	3,583	3,689	15
General Administration	2,930	6,498	7,939	1,489
Honor Society	274	2,866	3,080	60
Ind. Education	320	1,260	1,406	174
Library	847	2,420	2,588	679
Masque and Bauble	12,734	1,572	844	13,462
Music Dept. Joint Acct.	628	521	1,030	119
Technology	590	---	117	473
S.A.D.D.	117	2,194	1,877	434
Science Olympiad	11	170	175	6
Ethnic Club	5	---	---	5
Student Council	4,566	3,150	2,804	4,912
S.A.F.E.	433	---	---	433
Tiger Bazaar	1,190	705	643	1,252
Vocal Music	1,967	7,863	6,859	2,971
Pep Club	34	---	---	34
Training Club	160	---	---	160
Yearbook Class	13,295	17,485	15,685	15,095
General Admin. - Athletic	5,563	96,873	88,345	14,091
General Admin. - Pop	7,560	6,264	9,344	4,480
Due to Others (Interest)	951	1,648	951	1,648
TOTALS	\$ 67,160	\$ 222,941	\$ 218,560	\$ 71,541

SHELBY PUBLIC SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES MIDDLE SCHOOL INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/05			Student Groups 6/30/06
Athletic Department	\$ 869	\$ 620	\$ 613	\$ 876
Band Resale	---	2,895	2,963	-68
Computer Supplies	585	516	1,101	---
Cheerleaders	1,239	2,801	3,756	284
Claw Club	73	10,618	6,156	4,535
Interest	-2,595	2,595	---	---
Eighth Grade	1,367	18,738	17,898	2,207
Life Management	444	3,261	3,705	---
Mitteer's Application Class	591	336	916	11
Library Fund	1,305	3,279	2,570	2,014
Petty Cash	2	7,070	6,922	150
Beverage Machines	-20	4,592	3,861	711
Seventh Grade	7,605	9,382	10,546	6,441
Sixth Grade	8,394	4,915	5,302	8,007
Ski Club	2,930	---	2,930	---
Physical Education	109	3,346	2,505	950
World's Finest Candy	---	3,752	3,752	---
TOTALS	\$ 22,898	\$ 78,716	\$ 75,496	\$ 26,118

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
BENONA ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/05			Student Groups 6/30/06
5th Grade	\$ 184	\$ 234	\$ 138	\$ 280
4th Grade	358	2,104	1,414	1,048
3rd Grade	161	50	---	211
2nd Grade	358	50	---	408
1st Grade	8	---	---	8
Kindergarten	8	---	---	8
Computer Lab	84	---	42	42
Library	291	68	75	284
Miscellaneous	1,154	751	1,428	477
TOTALS	\$ 2,606	\$ 3,257	\$ 3,097	\$ 2,766

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FERRY ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to	Receipts	Disbursements	Due to
	Student Groups 6/30/05			Student Groups 6/30/06
5th Grade	\$ 77	\$ 42	\$ 44	\$ 75
4th Grade	312	1,875	1,674	513
3rd Grade	147	167	111	203
2nd Grade	284	180	207	257
1st Grade	340	139	374	105
Kindergarten	60	210	168	102
Library	---	200	180	20
Miscellaneous	2,092	988	524	2,556
Scholarship	3,362	4,120	1,000	6,482
TOTALS	\$ 6,674	\$ 7,921	\$ 4,282	\$ 10,313

SHELBY PUBLIC SCHOOLS

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES NEW ERA ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to Others	Receipts	Disbursements	Due to Others
	6/30/05			6/30/06
Fund Raisers	\$ 9,300	\$ 399	\$ 6,707	\$ 2,992
Miscellaneous	-3,744	7,488	4,499	-755
Teaching Supplies	-3,911	4,567	1,369	-713
TOTALS	\$ 1,645	\$ 12,454	\$ 12,575	\$ 1,524

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES THOMAS READ ELEMENTARY INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to Student Groups	Receipts	Disbursements	Due to Student Groups
	6/30/05			6/30/06
Candy Sales	\$ 11,860	\$ 4,498	\$ 2,225	\$ 14,133
Categorical Class	375	1	324	52
Fish Bowl	166	---	11	155
Fund Raiser	171	181	164	188
ECC	28	196	135	89
Girls on the Run	---	455	455	---
Interest	2,734	440	25	3,149
Library	1,421	3,531	4,670	282
Miscellaneous	3,211	8,936	9,227	2,920
Professional Development	-47	467	267	153
Relay for Life	---	2,401	2,401	---
PTO Projects	498	---	498	---
Safety Patrol	9	---	9	---
Sandy-Computer	762	19	---	781
Staff Fund	596	1,110	1,311	395
Student Council	1,193	1,530	1,192	1,531
Volunteers	111	99	99	111
TOTALS	\$ 23,088	\$ 23,864	\$ 23,013	\$ 23,939

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CENTRAL OFFICE INTERNAL FUND

FISCAL YEAR ENDED JUNE 30, 2006

ACTIVITY	Due to Others	Receipts	Disbursements	Due to Others
	6/30/05			6/30/06
Relay for Life	\$ ---	\$ 4,069	\$ 3,937	\$ 132
Fair Share	---	2,168	2,168	---
Miscellaneous	260	5,348	5,588	20
Needy Children	3,001	223	55	3,169
Scholarship	---	500	500	---
Vending Commission	---	219	193	26
Ferry Library	---	535	507	28
TOTALS	\$ 3,261	\$ 13,062	\$ 12,948	\$ 3,375

STATEMENTS OF BONDED INDEBTEDNESS

Statement Of Bonded Indebtedness

1992 DEBT

Issue Dated June 1, 1992 in the amount of	\$ 345,000
Less:	
Bonds paid in prior years	190,000
Bonds due and paid May 1, 2006	<u>35,000</u>
Balance outstanding - June 30, 2006	<u><u>\$ 120,000</u></u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007	6.70%	\$ 8,105	\$ 35,000	\$ 43,105
2008	6.75%	5,760	40,000	45,760
2009	6.80%	<u>3,060</u>	<u>45,000</u>	<u>48,060</u>
		<u>\$ 16,925</u>	<u>\$ 120,000</u>	<u>\$ 136,925</u>

SHELBY PUBLIC SCHOOLS

Statement Of Bonded Indebtedness

DURANT DEBT

Issue Dated November 28, 1998 in the amount of	\$ 154,344
Less:	
Bonds paid in prior years	55,739
Bonds due and paid May 1, 2006	<u>7,471</u>
Balance outstanding - June 30, 2006	<u>\$ 91,134</u>

Balance payable as follows:

Year	Rate	Interest	Principal	Total
Prior	4.761%	\$ 12,433	\$ 27,875	\$ ---
2007	4.761%	3,012	7,825	51,145
2008	4.761%	2,639	8,199	10,838
2009	4.761%	2,249	8,590	10,839
2010	4.761%	1,840	8,998	10,838
2011	4.761%	1,412	9,427	10,839
2012	4.761%	963	9,875	10,838
2013	4.761%	493	10,345	10,838
		<u>\$ 25,041</u>	<u>\$ 91,134</u>	<u>\$ 116,175</u>

1998 REFUNDING DEBT

Issue Dated December 22, 1998 in the amount of **\$ 9,845,000**

Less:

Bonds paid in prior years 385,000

Bonds due and paid May 1, 2006 55,000

Balance outstanding - June 30, 2006 **\$ 9,405,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007	4.10%	\$ 429,968	\$ 55,000	\$ 484,968
2008	4.20%	427,712	60,000	487,712
2009	4.20%	425,193	145,000	570,193
2010	4.25%	419,102	710,000	1,129,102
2011	4.30%	388,928	730,000	1,118,928
2012	4.35%	357,537	750,000	1,107,537
2013	4.40%	324,913	765,000	1,089,913
2014	4.50%	291,252	785,000	1,076,252
2015	4.60%	255,928	780,000	1,035,928
2016	4.65%	220,047	775,000	995,047
2017	4.70%	184,010	790,000	974,010
2018	4.80%	146,880	785,000	931,880
2019	4.80%	109,200	775,000	884,200
2020	4.80%	72,000	750,000	822,000
2021	4.80%	36,000	750,000	786,000
		\$ 4,088,670	\$ 9,405,000	<u>\$ 13,493,670</u>

2003 REFUNDING DEBT

Issue Dated August 12, 2003 in the amount of **\$ 2,945,000**

Less:

Bonds paid in prior years 635,000

Bonds due and paid May 1, 2006 585,000

Balance outstanding - June 30, 2006 **\$ 1,725,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007	2.30%	\$ 44,640	\$ 595,000	\$ 639,640
2008	2.60%	30,955	605,000	635,955
2009	2.90%	15,225	525,000	540,225
		<u>\$ 90,820</u>	<u>\$ 1,725,000</u>	<u>\$ 1,815,820</u>

FEDERAL FINANCIAL ASSISTANCE

SHELBY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2006

Program Title		Federal CFDA No.	Contract Number	Program or Award Amount
<u>U.S. Department of Education</u>				
Pass Through State Department of Education:				
- Title I	*	84.010A	615300506	\$ 357,129
- Title I	*	84.010A	515300506	2,738
- Title I	*	84.010A	515300405	354,391
- Migrant Summer Education		84.011	518302005	54,978
- Migrant Summer Education		84.011	518302006	36,582
- Migrant Education		84.011	618900506	90,910
- Title V LEA Allocation		84.298	602500506	6,658
- Title 2D Technology Literacy		84.318	642900506	6,662
- Title IIA Improving Teacher Quality		84.367	505200405	78,124
- Title IIA Improving Teacher Quality		84.367	505200506	35,724
- Title IIA Improving Teacher Quality		84.367	605200506	111,988
- Comprehensive School Reform		84.332	418700405	103,009
- Comprehensive School Reform		84.332	518700506	100,000
- Title III English Language Acquisition		84.365	605800506	18,588
- Adult Basic Education		84.002	511206500255	5,000
- Adult Basic Education		84.002	611206500255	11,900
Pass through Muskegon Area ISD				
- Adult Basic Education		84.002		15,623
Pass through Oceana ISD - IDEA		84.027A		45,000
<u>Total U.S. Department of Education</u>				
<u>U.S. Department of Agriculture</u>				
U.S.D.A. Food Distribution:				
- Entitlement Commodities		10.550		31,063
- Bonus Commodities		10.550		2,947
Pass Through State Department Of Education:				
- National School Lunch Program	*	10.555	51950-51960, 61950-61960	262,497
- National School Lunch Breakfast	*	10.553	51970, 61970	64,484
- Child Care Food Program		10.558	51920, 52010, 61920, 62010	29,281
- Summer School Food	*	10.559	50900, 51900	16,792

Total U.S. Department of Agriculture

*Designates a major program

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2005	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2006
\$ ---	\$ ---	\$ 341,742	\$ 340,153	\$ -1,589
---	---	2,738	2,738	---
354,391	7,119	7,119	---	---
354,931	7,119	351,599	342,891	-1,589
19,800	13,355	48,533	35,178	---
---	---	4,990	15,878	10,888
---	---	90,910	90,910	---
19,800	13,355	144,433	141,966	10,888
---	---	6,658	6,658	---
---	---	6,662	6,662	---
78,124	2,819	2,819	---	---
---	---	35,724	35,724	---
---	---	83,300	85,905	2,605
78,124	2,819	121,843	121,629	2,605
79,469	13,975	37,515	23,540	---
---	---	97,409	97,409	---
79,469	13,975	134,924	120,949	---
---	---	18,588	18,588	---
---	---	5,000	5,000	---
---	---	11,900	11,900	---
---	---	13,593	15,623	2,030
---	---	30,493	32,523	2,030
---	---	45,000	45,000	---
532,324	37,268	860,200	836,866	13,934
---	---	15,175	15,175	---
---	---	2,947	2,947	---
---	---	18,122	18,122	---
---	---	262,497	262,497	---
---	---	64,484	64,484	---
---	---	326,981	326,981	---
---	431	29,280	29,209	360
---	6,440	16,792	14,893	4,541
\$ ---	\$ 6,871	\$ 391,175	\$ 389,205	\$ 4,901

Karl L. Drake, P.C.

SHELBY PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2006

Program Title	Federal CFDA Number	Program or Award Amount
<u>U.S. Department of Labor</u>		
Pass Through Muskegon County Department of Employment and Training		
WIA - Dislocated Worker	17.260	\$ 37,531
WIA - Youth	17.259	8,682
WIA - Adult	17.258	31,866
WIA - Classroom Training	17.261	4,566
 Labor Exchange	 17.207	 77,373
Labor Exchange	17.207	46,147
 Drug Free	 17.246	 10,203
<u>Total U.S. Department of Labor</u>		
<u>U.S. Department of Health and Human Services</u>		
Pass through Muskegon County		
Work First *	93.558	462,127
 Pass through Michigan 4C Assoc Community Coordinated Child Care	 93.575	 1,848
Pass through Muskegon Area Intermediate School District		
Head Start *	93.600	290,968
Head Start *	93.600	---
<u>Total U.S. Department of Health and Human Services</u>		
<u>Corporation For National and Community Service</u>		
Pass through Council of Michigan Foundation		
Learning to Give	94.004	3,718
Pass through State Department of Labor and Economic Growth		
Service Learning	94.004	15,000
Service Learning	94.004	15,000
<u>Total Corporation for National and Community Service</u>		
<u>Total Federal Financial Assistance</u>		

*Designates a major program

Prior Year Expenditure	Cash/Accrued or <Deferred> Revenue at July 1, 2005	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <Deferred> Revenue at June 30, 2006
\$ ---	\$ 2,629	\$ 23,939	\$ 37,531	\$ 16,221
---	6,071	18,241	36,889	24,719
---	---	31,791	31,866	75
---	1,507	15,426	13,919	---
77,373	22,820	22,820	---	---
---	---	40,033	46,147	6,114
77,373	22,820	62,853	46,147	6,114
---	---	10,203	10,203	---
77,373	33,027	162,453	176,555	47,129
---	197,077	381,575	462,127	277,629
1,778	-1,245	1,280	70	-2,455
182,165	71,420	180,223	108,803	---
---	---	147,872	194,007	46,135
182,165	71,420	328,095	302,810	46,135
183,943	267,252	710,950	765,007	321,309
2,671	47	---	1,047	1,094
---	---	5,222	9,885	4,663
14,396	4,955	5,559	604	---
17,067	5,002	10,781	11,536	5,757
	\$ 349,420	\$ 2,135,559	\$ 2,179,169	\$ 393,030

SHELBY PUBLIC SCHOOLS

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2006

NOTE 1 - MAJOR PROGRAMS

There were four major programs Title I, Work First, Head Start, and the Child Nutrition Cluster. Total expenditures during the year ended June 30, 2006, were \$342,891, \$462,127, \$302,810, and \$341,874.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2006 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Grants from the Department of Labor are not expenditure driven. For these grants, revenue is recognized when the appropriate service has been performed. Amounts billed but not received by June 30, 2006 are recorded as accrued revenue. Expenditures are not reflected on the Schedule of Federal Awards for these grants.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

YEAR ENDED JUNE 30, 2006

	Financial Statement	Awards Schedule
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 342,891	\$ 342,891
Migrant Education	90,910	90,910
Migrant Summer Education	51,056	51,056
Improving Teacher Quality	121,629	121,629
Title V	6,658	6,658
Title III	18,588	18,588
Adult Basic Education	15,623	15,623
English Literacy	16,900	16,900
IDEA	45,000	45,000
Comprehensive School Reform	120,949	120,949
Technology Literacy	6,662	6,662
TOTAL	<u>836,866</u>	<u>836,866</u>
DEPARTMENT OF AGRICULTURE GRANTS		
GENERAL FUND		
Child Care Food	29,209	29,209
Summer School Food	14,893	14,893
FOOD SERVICE FUND		
Commodities	18,122	18,122
Federal Aid	326,981	326,981
TOTAL	<u>389,205</u>	<u>389,205</u>
DEPARTMENT OF LABOR GRANTS		
GENERAL FUND		
Workforce Investment Act	120,205	120,205
Drug Free	10,203	10,203
Labor Exchange	46,147	46,147
TOTAL	<u>176,555</u>	<u>176,555</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
GENERAL FUND		
Work First	462,127	462,127
Head Start	302,810	302,810
4C Schooling	70	70
TOTAL	<u>765,007</u>	<u>765,007</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
GENERAL FUND		
Service Learning	10,489	10,489
Learning to Give	1,047	1,047
TOTAL	<u>11,536</u>	<u>11,536</u>
GRAND TOTAL	<u><u>\$ 2,179,169</u></u>	<u><u>\$ 2,179,169</u></u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the financial statements of Shelby Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. We have conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby Public Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC
Certified Public Accountant

August 18, 2006

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

Compliance

We have audited the compliance of Shelby Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Shelby Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shelby Public School's management. Our responsibility is to express an opinion on Shelby Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shelby Public School's compliance with these requirements.

In our opinion, Shelby Public School's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

The management of Shelby Public School's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shelby Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC
Certified Public Accountant

August 18, 2006

SHELBY PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2006

Summary of Auditor's Results

1. The auditor issued an unqualified report on the financial statements of Shelby Public Schools.
2. The audit disclosed no noncompliance that is material to the financial statements of Shelby Public Schools.
3. The auditor issued an unqualified opinion on compliance for major programs.
4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
5. Shelby Public Schools had four major programs - Title I, Work First, Head Start, and the Child Nutrition Cluster.
6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Shelby Public Schools qualified as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2006

There were no prior audit findings.

Karl L. Drake, P.C.
Certified Public Accountant

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Horton, Michigan 49246

Fax

Email:

kldrake@voyager.net

August 18, 2006

Board of Education
Shelby Public Schools
Shelby, Michigan 49455

We have audited the general purpose financial statements of Shelby Public Schools for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006.

In planning and performing our audit of the general purpose financial statements, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of Shelby Public Schools is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations and to make suggestions to improve upon the existing internal control structure.

FINANCIAL OVERVIEW

Fund Financial Statements

The General Fund finished the year with a fund balance of \$3,150,217. This is a decrease of \$919,519 from the prior year balance. Total General Fund revenue decreased by approximately \$80,000, and expenditures decreased by approximately \$685,000. The District has reduced the General Fund balance by almost \$2,500,000 over the past two years.

The District has the resources to do this, and is still in solid financial position, but the budget needs to be brought much closer to a balanced budget going forward to maintain good financial standing.

The cafeteria fund ended with a fund balance of \$109,123, which is an increase of \$1,538 from the prior year balance. Both revenue and expenditures were consistent with prior year levels.

Long-term debt decreased by approximately \$1,275,000. The School Bond Loan fund will be repaid in full during this next fiscal year. The 1992 and 2003 Bond Issues have 3 years of payments remaining.

District-Wide Statements

The Statement of Net Assets and Statement of Activities based on the total of all governmental funds shows the School District with total net assets of \$5,848,513. This is a decrease of approximately \$2,000,000 from the prior year level. The primary reason for the reduction is the inclusion of severance pay in the long-term liabilities.

The inclusion of severance pay leaves the District with the following net asset make-up at June 30, 2006.

Invested in Capital Assets, net of related Debt	\$5,907,663
Restricted for Debt Service	243,892
Unrestricted	-303,042

Negative unrestricted net assets indicate that all current resources of the District are committed for future expenditures. The District needs to be very careful about long-term benefits offered to staff, and attempt to bring the unrestricted net assets back to a positive balance.

BUDGETING

The Department of Education is scrutinizing more closely the area of budgeting. For years, they have monitored the expenditures for overspending. Now they are much more closely monitoring the revenue and fund balance aspects of budgeting as well. The District has historically done an excellent job of monitoring both revenue and expenditures on a monthly basis, and making the necessary budget amendments. This practice needs to continue to receive high priority.

The above comments are intended for the use of the Board of Education and management of Shelby Public Schools. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in black ink and is positioned above the printed name.

Karl L. Drake, CPA